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No. 82-1992

In the

Supreme Court of the United States

OCTOBER TERM, 1982

ARTIC INTERNATIONAL, INC.

Petitioner,

vs.

MIDWAY MFG. CO.,

Respondent.

On Petition for a Writ of Certiorari
To The United States Court of Appeals
for the Seventh Circuit

BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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Dated: July 6, 1983

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QUESTIONS PRESENTED

1. Whether the audiovisual works (the images and sounds) of electronic video games are copyrightable under the copyright laws of the United States.

2. Whether the sale of "speed-up kits," which create unauthorized derivative works of respondent's copyrighted audiovisual works, violate respondent's exclusive rights to create derivative works under the copyright laws of the United States.

3. Whether it is untimely for petitioner to ask this Court to consider the district court's dismissal of petitioner's "unclean hands" and misuse defenses.

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Petitioner asks this Court to review the unanimous judgment of the Seventh Circuit Court of Appeals affirming the District Court's grant of a preliminary injunction against infringement of respondent's copyright in the PAC-MAN and GALAXIAN video games. As the Chief Judge of the Seventh Circuit pointed out in an order denying respondent's motion to stay the mandate, there is no reason to grant certiorari in this case, because the decision of the court below is in accord with the decision of every other court or tribunal which has considered the questions raised by petitioner in this case. (Copy of order attached as Appendix A.)

This is a piracy action for infringement of plaintiff's copyrights in the "audiovisual works" (images and sounds) of its PAC-MAN and GALAXIAN video games. The dis-

trict court granted a preliminary injunction after a two day evidentiary hearing on a record which, by stipulation, also included six days of testimony in a proceeding before the International Trade Commission. *In re Certain Coin-Operated Audiovisual Games and Components Thereof (viz. RALLY-X and PAC-MAN)*, Investigation No. 337-TA-105. 2 COPYRIGHT L. REP. (CCH) ¶ 25,422 (July 1, 1982). The courts below rejected a panoply of technical defenses raised by Artic, and focused instead on the fact that Artic clearly had access to plaintiff's copyrighted audiovisual works and were selling infringing copies that produced substantially similar works. The district court noted that petitioner "began taking every effort to disguise the fact that it was selling" infringing copies as soon as this suit was filed. 547 F. Supp. at p. 1013.

The "questions presented" by petitioner do not warrant review by this Court. First, audiovisual works of video games have been held to be copyrightable by every court which has considered the question, including the courts below. Second, every court which has considered the question has held that the sale of "speed-up kits", which create unauthorized derivative works of respondent's copyrighted audiovisual works, violate respondent's exclusive rights to create derivative works. 17 U.S.C. § 106(2). Finally, it is untimely for petitioner to ask this Court to consider the district court's dismissal of petitioner's "unclean hands" and misuse defenses, especially since petitioner did not raise these matters with the Seventh Circuit as matters collateral to its appeal of the preliminary injunction.

Because of the preliminary stage of these proceedings, the sole question now presented is extremely narrow: whether respondents are likely to succeed at a trial on the merits in proving their claim of copyright infringement. This issue poses no question of national importance. The petition thus presents no special or important reason for granting the writ. This case involves no conflict with any decision of this Court or any other court for that matter. Nor has there been any departure from the accepted and usual course of judicial

proceedings. In short, there is no sound reason that the writ should be granted. (*See Supreme Court Rule 17.1*).

COUNTERSTATEMENT OF THE FACTS

Respondent, Midway Mfg. Co. ("Midway")[1], is the owner of the copyrights in the audiovisual works of coin-operated PAC-MAN and GALAXIAN video games that it manufactures and sells. Each of these games consists of a cabinet which contains player controls, a coin box, a television screen, and electronics in the form of a printed circuit board loaded with components. Some of these components are computer memory devices called ROMs, which contain a computer program and data that produces, in combination with a microprocessor and other electronic components, the images and sounds of the games.

Midway's coin-operated video games are sold to distributors, who sell the games to operators, who in turn place the games at locations and derive profit from the deposit of coins in the games.

Both of the games in this suit were created by a Japanese company, Namco, Limited, who sold the United States copyright to Midway in exchange for royalties. Midway has paid Namco a substantial amount of money for the rights it purchased.

Petitioner, Artic International, Inc. ("Artic"), sells two devices which the lower courts found infringe Midway's copyrights. The first of these items is a speed-up kit consisting of a small printed circuit board which contains five ROMs (computer memory devices). Petitioner's kit can be plugged into the printed circuit board of Midway's GALAXIAN video game in place of a printed circuit board of equivalent size which also contains five ROMs to create a GALAXIAN audiovisual work in which the movements of

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[1] Midway Mfg. Co. is a wholly owned subsidiary of Bally Manufacturing Corporation. (*See Supreme Court Rule 28.1*).

the images are modified to make the play of the games more difficult.

Artic itself recognized that the purpose of its speed-up kit was to enable owners of Midway GALAXIAN games to increase the income of the games, and Artic advertisements for the kit read in part: "TRY OUR MEMORY BOARDS DOUBLE YOUR GALAXIAN INCOME".

The district court found that the computer instructions in the ROMs on Artic's speed-up kit were a slight modification of the computer program in the ROMs on the Midway GALAXIAN board. The district court further found that the use of Artic's GALAXIAN speed-up kit is substantially limited to attaching it to Midway GALAXIAN games; that the kit would not work on several other games, and that the programming language used in the ROM of the Artic kit would be incompatible with the language read by microprocessors of many other games. The district court thus concluded that the speed-up kit was designed solely to modify Midway's GALAXIAN game, and was not a technological breakthrough of general application to all video games. The district court held that Artic's speed-up kits are infringing "derivative works" of Midway's GALAXIAN video game.

The second item sold by Artic that Midway claims is an infringement is a printed circuit board that is used to create a "PUCKMAN" video game. In other words, when the printed circuit board is connected to the other elements of a coin-operated video game, it produces an audiovisual work named "PUCKMAN". The district court concluded that the PUCKMAN video game created by Artic's printed circuit board "is absolutely identical to Midway's PAC-MAN video game" with the exception of "trivial differences". 547 F. Supp. at p. 1005. The district court also observed that Artic's PUCKMAN printed circuit board contained an error common to Midway's PAC-MAN game. Thus, the district court held that the Artic printed circuit board was an infringing copy of Midway's PAC-MAN game.

The district court also observed that "there was substantial evidence presented which showed that even Artic recognized that its [printed circuit] boards were being used in contravention of the law." *Id.* at p. 1013. As already discussed, Artic began camouflaging its sales of PUCKMAN printed circuit boards shortly after Midway filed this lawsuit. Thus, the district court granted Midway a preliminary injunction against Artic's infringement of Midway's copyrights.

The Court of Appeals unanimously affirmed. It held that the district court was correct in holding that the audiovisual works (the images and sounds)[2] of the GALAXIAN and PAC-MAN video games copyrightable subject matter under the 1976 Copyright Act. It held that the district court was correct in holding that Artic's sale of PUCKMAN printed circuit boards and speed-up kits for Midway's GALAXIAN video games respectively violated Midway's exclusive right to distribute copies and to create derivative works under Section 106 of the 1976 Copyright Act. 17 U.S.C. § 106. Artic did not move for a rehearing or a rehearing en banc.

ARGUMENT

I. The Courts Below Correctly Found That Audiovisual Works In Video Games Are Copyrightable

Petitioner's first contention, that "video game displays are not copyrightable audiovisual works", has no basis in law or in fact.

As the Seventh Circuit observed in affirming the grant of the preliminary injunction, "every other federal court (including our own) that has confronted this issue has

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[2]The 1976 Copyright Act defines "audiovisual works" as "works that consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices such as . . . electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films or tapes, in which the works are embodied. 17 U.S.C. § 101.

reached the same conclusion" that the audiovisual works in video games are copyrightable. *Williams Electronics, Inc.* v. *Artic International, Inc.*, 685 F.2d 870 (3d Cir. 1982); *Atari, Inc.* v. *North American Philips Consumer Electronics Corp.*, 672 F.2d 607, 617 (7th Cir 1982) *cert. denied.* ——— U.S. ———, 103 S. Ct. 176 (1982); *Stern Electronics, Inc.* v. *Kaufman*, 669 F.2d 852 (2d Cir. 1982); *Midway Mfg. Co.* v. *Dirkschneider*, 543 F. Supp. 466 (D. Neb. 1981). Petitioner has cited no case to the contrary. All of the arguments that petitioner raises here have been raised and rejected in these other cases.

II. The Courts Below Correctly Ruled That Petitioner's Sale of "Speed-Up Kits" Constitutes Contributory Infringement

Both the district court and the unanimous court of appeals applied settled principles of copyright law in holding that the respondent was likely to succeed on the merits of its claim that petitioner's sale of a "GALAXIAN speed-up kit" constituted contributory infringement. The district court found that the printed circuit board of respondent's GALAXIAN video game contained a small "piggyback memory board" mounted on top of the printed circuit board which included five ROMs which contained the computer program of the GALAXIAN game. The court found that the speed-up kit sold by respondent consisted of a small piggyback board virtually identical in size to that of the piggyback board in the GALAXIAN game, which also contained five ROMs. The court found that the computer program in petitioner's "speed-up kit" was copied in large part from the computer program in the ROMs of the piggyback board of the GALAXIAN game. The district court concluded that petitioner's speed-up kit was designed solely to modify respondent's GALAXIAN audiovisual work, that it was physically incompatible with very few games other than the GALAXIAN game, and to the extent that the kit did work with other games, it changed them in ways which further showed that it was meant to be used only in the GALAXIAN game. For example, the court noted that the

speed-up kit caused the words "WE ARE THE GALAXIANS" to appear on the screens of other games, and caused the characters in those games to move in a way extremely similar to the way in which the characters in the GALAXIAN game moved. 547 F. Supp. at p. 1005. Also, the court found that the earliest advertising used by Artic to promote its speed-up kits referred only to speeding up GALAXIAN games. No other use of the kit was mentioned. *Id.* at p. 1004. In view of these factual findings, the district court concluded that petitioner's speed-up kits were infringing derivative works of respondent's GALAXIAN game.

Petitioner's argument to the effect that respondent's exclusive rights under the Copyright Act are exhausted by the first sale of respondent's coin-operated video games ignores Section 202 of the 1976 Copyright Act which specifically states that "transfer of ownership of any material object . . . does not of itself convey any rights in the copyrighted work embodied in the object". 17 U.S.C. § 202. The cases respondent cites in support of its argument at page 18 of the Petition are inapposite, because the courts in those cases did not hold that the modifications to the copies of the copyrighted work transformed the copies into infringing derivative works, as is the case here.

A case ignored by petitioners and directly on point is *Gilliam* v. *American Broadcasting Cos.*, 538 F.2d 14 (2d Cir. 1976), in which the Second Circuit held that the unauthorized editing of a motion picture by the author's licensee infringed the author's exclusive right to authorize the broadcast of derivative works of the copyrighted work. Moreover, petitioner also ignores a line of cases under the 1909 Copyright Act which hold that the grant of one right under the Copyright Act does not detract from the copyright owner's right to invoke rights not granted. *E.g., Interstate Hotel Co.* v. *Remick Music Corp.*, 157 F.2d 744 (8th Cir. 1946), *cert. denied* 329 U.S. 809 (1947); *Schwartz* v. *Broadcast Music, Inc.*, 180 F. Supp. 322 (S.D.N.Y. 1959).

Another basic flaw in petitioner's argument is its reliance on patent cases. The rights granted under the Copyright Act are different than those granted under the Patent Act. The owner of a copyright has the exclusive rights under 17 U.S.C. § 106:

> (1) to reproduce the copyrighted work in copies for phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted works to the public by sale or other transfer of ownership, or by rental, lease, or lending;
>
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomime, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and
>
> (5) in the case of literary, musical, dramatic, and choreographic work, pantomimes, and pictorial, graphic or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

In contrast, the grant of a patent gives the patent owner the exclusive right to make, use or sell the patented invention. 35 U.S.C. § 271. The cases cited by petitioner on page 17 of its brief merely hold that modification of a patented article does not infringe the exclusive right to make, use or sell the patented article. In contrast, petitioner's device, when incorporated into a Midway GALAXIAN video game, creates an unauthorized derivative work or sequel to Midway's GALAXIAN audiovisual work. Petitioners sale thus deprives Midway of its exclusive right under Section 106(2) of the Copyright Act to prepare and market derivative works or sequels of its GALAXIAN video games.

III. It Is Untimely To Consider Petitioner's "Unclean Hands" Argument

Petitioner's claim that the lower courts erred in not considering petitioner's "unclean hands" claims provide no reason for this Court to grant the writ. In the first place, petitioner did not attempt to raise the "unclean hands" argument in connection with its interlocutory appeal under 28 U.S.C. § 1292(b) of the district court's grant of the preliminary injunction. Second, given the fact that the case has yet to go to trial, it would be untimely to consider such arguments. Third, the lower court properly dismissed the arguments because they are specious at best.

This is a piracy action in which the petitioner sought to conceal its piracy. In litigating this action, petitioner did everything it could to delay a hearing on respondent's motion for preliminary injunction, as was observed by the district court in its June 2, 1981 decision denying a number of petitioner's specious discovery motions and compelling petitioner to provide respondent with answers to discovery requests. (Petition, Appendix C).

This Court has often denied petitions such as this from the award of preliminary injunctions in copyright and trademark infringement cases. E.g., *Atari, Inc.* v. *North American Philips Consumer Electronics Corp.*, 672 F.2d 607 (7th Cir. 1982), *cert. denied*, ____ U.S. ____, 103 S. Ct. 176 (1982); *Helene Curtis Industries, Inc.* v. *Church & Dwight Co.*, 560 F.2d 1325, 1330 (7th Cir. 1977), *cert. denied*, 434 U. S. 1070 (1978) (plaintiff's motion for a preliminary injunction for trademark infringement granted; trial and discovery of antitrust affirmative defenses and counterclaims severed and stayed from the trial and discovery on trademark issues).

One final point should be made with respect to petitioner's arguments. On page 2 of the petition, petitioner argues that "the preliminary injunction has put Artic out of business." This statement is a blatant falsehood in view of the district court's observations that "Artic has a substantial business in

the sale of integrated circuits, that the speed-up kit is not a substantial part of Artic's business, and that Artic sells printed circuit boards for about thirty different games." 547 F. Supp. at p. 1014. In view of the district court's findings, it is difficult to envision how a preliminary injunction against selling two out of a large number of products could "put Artic out of business."

IV. This Case Exhibits None Of The Special And Important Reasons For Granting Certiorari

Petitioner alludes to the economic significance of the video game industry, and argues that there is a great deal of money at stake on the question of copyrightability of video games. This, however, does not provide a reason for granting a writ in this preliminary injunction case. Economic impact alone does not warrant certiorari absent a conflict among the circuits. Issuance of the writ here would be a marked departure from this Court's established practice.

Moreover, judicial economy warrants the denial of the writ in this case. Because the case must still go to trial, this Court would be unable to render a final disposition in this case if it granted the petition. Thus review by this Court of a preliminary injunction would neither avoid piecemeal appeals nor expedite final determination of the issues. In fact, reversal of the Seventh Circuit decision would do no more than send the case back to the lower courts for fuller examination of the issues with appeals available from any decision rendered by those courts.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari to review the decision of the Court of Appeals for the Seventh Circuit should be denied.

Respectfully submitted,

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APPENDIX A

United States Court of Appeals

COPY

For the Seventh Circuit
Chicago, Illinois 60604

DOCKETED
JUN 9 1983
WELSH & KATZ

June 6, 19 83

Before

Hon. WALTER J. CUMMINGS, Chief Judge

Hon. _____

Hon. _____

No. 82-1607
MIDWAY MFG. COMPANY,
Plaintiff, Counterdefendant-Appellee,
vs.
ARTIC INTERNATIONAL, INC.,
Defendant, Third Party Plaintiff-Appellant,
vs.
TPD BALLY MANUFACTURING CORPORATION,
Third Party Defendant

Appeal from the United States District Court for the Northern District of Illinois Eastern Division
No. 80 C 5863

Judge Bernard M. Decker

This matter comes before the court for its consideration on the "MOTION FOR STAY OF MANDATE" filed herein on June 2, 1983, by counsel for appellant. On consideration thereof,

IT IS ORDERED that because the various courts which have considered this matter are in accord, said motion is hereby DENIED. This court's opinion is clearly correct in that a Supreme Court review would be unwarranted.

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